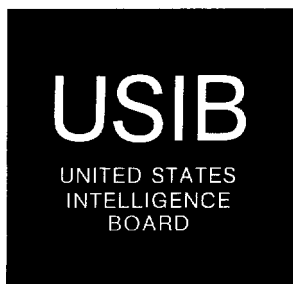


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DIA review(s) completed.

State Dept. review completed

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PORTUGAL

Portuguese Communists yesterday vowed to continue their campaign in the north to reassert the party's presence there.

Their initial foray into the north, a party rally on Saturday in the town of Alcobaca, proved that the anti-Communists are equally determined to be rid of them. The Communists, now experiencing the same type of harassment faced by the more conservative parties several months ago, are demanding that the military guarantee the right of free assembly.

They have scheduled another demonstration tomorrow in Porto, claiming they have sufficient power to respond and "smash the counterrevolutionaries." Anti-Communists around Porto are certain to react to this second challenge and more violence may result because the Communists have promised to "take precautions" against a repetition of events in Alcobaca.

Pro-Communist Prime Minister Goncalves, under heavy pressure to resign, publicly admitted Saturday that his new government—now over a week old—is unable to function because of the split in the armed forces. He appealed to the people to demand a quick solution to the "political ambiguities" dividing the military and political parties which prevent the cabinet from dealing with Portugal's more pressing problems. Goncalves promised that he and his left-wing cabinet would not "shirk their responsibilities." The statement will do little to gain support for Goncalves, but it does make clear to those opposing him that he will not step down voluntarily.

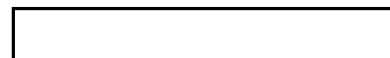
The dissident officers in the Armed Forces Movement are continuing to circulate the anti-regime document drafted by former foreign minister Antunes, hoping to gauge support among the rank and file before moving against Goncalves.

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The dissidents are clearly hesitant to move against their fellow officers and may lose their advantage if they continue to delay. The Socialists and other anti-Communist civilian groups, however, can be expected to continue pressuring them, particularly if the Communist counteroffensive in the north continues.

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INDONESIA - PORTUGUESE TIMOR

President Suharto has apparently made no decision on taking military action against Portuguese Timor. He has scheduled a meeting this morning with high-level cabinet and security officials to review the situation.

Suharto's main concern seems to be an adverse reaction from the US, particularly if he were to move against Timor only a few weeks after his visit to Washington. Top military commanders, however, will probably continue to press for swift military action because they fear the situation in Timor soon will turn irrevocably against pro-Jakarta elements and result in a threat to Indonesian security.

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BANGLADESH

There have been no signs of resistance to the new regime since the military-led coup on Friday. The round-the-clock curfew has been partially lifted, but martial law apparently remains in force.

The new government appears to be moving toward closer links with other Islamic countries—including Pakistan, with which relations had been very limited since Bangladesh became independent from Pakistan in 1971. Dacca probably will also try to maintain reasonably good relations with India, but ties are unlikely to be as close as they were under the late president Mujib.

The coup was led by young army officers.

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Mushtaque's new cabinet is comprised of middle-of-the-road and conservative members of Mujib's government and Awami League party.

Mushtaque has declared that his government wants friendly ties with all three major powers. Pakistan on Friday became the first nation to recognize the new regime and has promised to send 50,000 tons of rice and 15 million yards of cloth. It urged other Islamic countries to extend recognition, and Saudi Arabia and Sudan did so over the weekend. Bangladesh's new rulers undoubtedly are anxious to obtain economic aid from the Islamic countries.

India so far has taken a cautious stance toward the new government, which represents a shift away from the secular and generally pro-India orientation of the Mujib regime. An official Indian statement published Sunday described the events as "internal matters of Bangladesh" that India is "carefully studying." Tass reports indicate that Moscow is also adopting a wait-and-see attitude. Peking's news agency has reported the coup but not yet commented on it.

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LAOS

The long-anticipated Pathet Lao move to "liberate" the neutralized capital of Vientiane is underway.

Several thousand communist-led civilian demonstrators staged peaceful protest marches in two of Vientiane's outlying districts over the weekend. The marchers, described as well organized but less than enthusiastic, were accompanied by armed Pathet Lao troops and plainclothes cadre. The demonstrators are reportedly demanding the ouster of local non-communist village officials and their replacement by pro-communist sympathizers.

When this process has been completed in the outlying districts, perhaps as early as today or tomorrow, the demonstrators are expected to move to downtown Vientiane where they will demand fundamental changes in the capital's neutral status. The Pathet Lao objective is to abrogate those provisions of the 1973 peace accords which gave responsibility for security and other municipal functions in Vientiane to joint communist and non-communist organizations. This will allow the communists to assume direct control, abolish joint governing bodies, and change local officials. The organizers of the latest round of demonstrations or, in communist parlance, "popular uprisings," have reportedly said that the facade of national coalition government will be maintained despite these changes in Vientiane's administration.

The Pathet Lao will almost certainly follow up their take-over of Vientiane with similar moves in the royal capital of Luang Prabang, which was also neutralized under the terms of the 1973 accords. [REDACTED]

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ITALY

Senior Italian military leaders are concerned about recent signs of unrest among enlisted men and non-commissioned officers. It appears, however, that little will be done soon to correct the problems that have led to the discontent, from which the Communist Party may be benefiting.

Over the past few years, there has been increasing evidence of discontent in the enlisted ranks, but until now the Defense Ministry leadership has tended to portray it as the work of a few malcontents or extremist agitators. Several incidents within the past few weeks suggest, however, that there is widespread dissatisfaction with low pay, slow promotions, and the country's out-of-date military code. In violation of military regulations, air force NCOs have staged public demonstrations in Rome to protest the erosion of their pay and allowances by the 25-percent jump in the cost of living during the last year. The arrest of one of them led another group of NCOs to issue a communique supporting him and promising further "agitation."

Discontent among enlisted men in the navy was dramatized last month when an officer resigned to protest the refusal or inability of his superior to authorize certain improvements. In the army, a few members of one elite unit were arrested recently, apparently for organizing protest in their division.

In contacts with US embassy officers, the chiefs of staff of the three services have expressed concern about the deterioration of morale and discipline. The service chiefs recognize the need to improve conditions for enlisted men, but they complain bitterly about the lack of understanding and support from political leaders. Prodded by the service chiefs, Defense Minister Forlani has begun to move on the matter, but the sluggish manner in which parliament acts probably means that nothing will be done for a year or two, if at all.

The Communist Party, which advocates unions for both the military and police, may benefit politically from the situation. All of the Italian parties have traditionally neglected the military, but the Communists in recent years have mounted a characteristically well-organized campaign to capitalize on military

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discontent. They have championed the enlisted man's cause and have set up "defense committees" in various areas to gather information on the financial and social status of military personnel. The data are used to help formulate legislative proposals designed to appeal to the military.

The results of the mid-June regional and local elections in at least two cities suggest that the Communist strategy may be paying off. In Milan and Venice, the Communist vote rose markedly in areas where most of the electorate consists of military and security personnel.

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RHODESIA

Although Prime Minister Ian Smith and black Rhodesian nationalists have agreed to begin settlement talks this month, their conflicting views of the procedural arrangements do not bode well for successful negotiations.

The Rhodesian government announced on Tuesday that:

--An initial meeting will take place no later than August 25 in a railroad car on a bridge spanning the Zambezi River midway between Rhodesia and Zambia.

--The specific settlement terms will be drawn up by one or more joint committees working in Rhodesia.

--After the committees have completed their work, a final conference will convene at a mutually acceptable site to conclude a formal settlement.

On Wednesday in Zambia, Bishop Muzorewa, chairman of the Rhodesian African National Council, confirmed the black nationalists' acceptance of the procedural arrangements that had been announced in Rhodesia. On the same day, the Rhodesian government replied with a warning that the black nationalists risked destroying the possibility of an agreed settlement if they went back on any part of the agreement to hold talks. On Friday, however, Muzorewa said the Council rejects the provision to hold committee sessions inside Rhodesia; the detailed negotiations, he said, must be held at the site of the initial session.

Muzorewa's reversal was provoked by Smith's statement on Wednesday that the initial session will be merely a brief formality and that actual negotiations will take place inside Rhodesia. Before the procedural compromise was announced, Smith had insisted that the conference take place in Rhodesia; the black nationalists had claimed their exiled leaders might be arrested if they returned.

It now appears that settlement talks can be salvaged only by the mediators who have been pushing both sides toward a conference since last December, when they brought about a truce between Smith and the black insurgents. Smith has acknowledged that the fragile procedural agreement was formulated in Pretoria last weekend by himself, South African Prime Minister Vorster, and an envoy of Zambian President Kaunda. Both Smith and Muzorewa have announced that the governments of South Africa, Zambia, Mozambique, Tanzania, and Botswana will guarantee that any settlement agreement is honored. [REDACTED]

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IRAN

The Shah has added increased worker ownership of industry and a fight against inflation to his 12-point "Shah-people revolution." Inclusion of these points in the Shah's "revolution" puts Iranians on notice that he is serious about both programs and expects cooperation. Implementation, however, will be neither fast nor easy.

The Shah believes that greater ownership by workers will give Iran an element of economic democracy. Workers will be given preference to buy shares of government enterprises and as much as 49 percent of the shares in major private industries—excluding oil and certain other industries. Although the stock-purchase scheme is good public relations, it will be difficult to implement quickly, given the workers' limited financial ability to buy stock and their suspicion of investing. Private companies and current and potential foreign investors may also be wary because they could end up with only a 25-percent equity position under the Shah's scheme.

Inflation is the more immediate problem. According to the US embassy, it is the Iranians' number-one complaint. After a long period of price stability, double-digit inflation has gripped the country in the last few years and is currently running at about 25 percent a year. All Iranians feel the sting of higher prices. Civil servants, office workers, and other salaried personnel have been the hardest hit. Wages of industrial workers have increased faster than prices.

The low-income urban groups have been shielded to some extent by government subsidies for most basic foods. Industrialists and businessmen generally have fared well so far, but they will suffer if forced to absorb the price cuts imposed by the Shah on some 453 key commodities earlier this month.

Tehran's response to inflation has been slow, and even now fails to get at the roots of the problem. As with earlier attempts to blame foreign import prices, the Shah's attacks on price gougers are in part an attempt to find a scapegoat.

The major cause of inflation has been government spending, which has created shortages of goods and skilled manpower. The government also appears unwilling to curb private demand through forced savings or increased taxes. The tax reform package Tehran announced in June is aimed at corporations and high-income groups; it may well be enacted, but is unlikely to be vigorously enforced.

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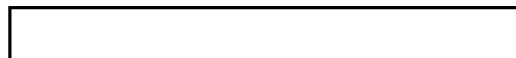
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